

Planning by	Reviewed	Performed by	Final review

Client details

Client name: KANNALAND MUNICIPALITY
Year end: 30 June 2014

Print details

Printed by
Date printed



KANNALAND MUNICIPALITY
Trading as Kannaland Municipality
Financial statements
for the year ended 30 June 2014
Office of the Auditor General (WC)
Registered Auditors

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

General Information

Legal form of entity	South African Category B Municipality (Local Municipality) as defined by the Municipality Structures Act. (Act no 117 of 1998)
Nature of business and principal activities	Local Authority
Mayoral committee	
Executive Mayor	J Donson
Councillors	P. Antonie A. Ewerts H. Ruiters J. Willemse W. Meshoa A. Rossouw
Chief Finance Officer (CFO)	NB Delo
Registered office	32 Church Street LADISMITH 6655
Business address	32 Church Street LADISMITH 6655
Postal address	P.O. Box 30 LADISMITH 6655
Bankers	Standard Bank ABSA Bank
Auditors	Office of the Auditor General (WC) Registered Auditors

APPROVAL OF FINANCIAL STATEMENTS

I am responsible for the preparation of these annual financial statements, which are set out on pages 1 to in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

Mr. MM Hoogbaard
Municipal Manager

Date

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Index

The reports and statements set out below comprise the financial statements presented to the provincial legislature:

Index	Page
Accounting Officer's Responsibilities and Approval	3
Audit Committee Report	4
Accounting Officer's Report	5
Statement of Financial Position	6
Statement of Financial Performance	7
Statement of Changes in Net Assets	8
Cash Flow Statement	9
Statement of Comparison of Budget and Actual Amounts	10 - 14
Appropriation Statement	15 - 16
Accounting Policies	17 - 43
Notes to the Financial Statements	44 - 80

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Accounting Officer's Responsibilities and Approval

The financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2015 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the Kannaland Municipality for continued funding of operations. The financial statements are prepared on the basis that the municipality is a going concern and that the Kannaland Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's financial statements. The financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The financial statements set out on pages 5 to 80, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2014 and were signed on its behalf by:

Accounting Officer
Designation

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Audit Committee Report

Chairperson of the Audit Committee

Date: _____

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Accounting Officer's Report

1. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

2. Bankers

ABSA, Oudtshoorn

Standard Bank

FNB, Ladismith

3. Auditors

Office of the Auditor General (WC) will continue in office for the next financial period.

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Statement of Financial Position as at 30 June 2014

Figures in Rand	Note(s)	2014	2013
Assets			
Current Assets			
Inventories	6	1 149 369	879 696
Loans to Golf Club	7	2 186	4 123
Current tax receivable		4 894 022	5 240 906
Receivables from non-exchange transactions	8	1 033 264	1 071 579
VAT receivable	9	4 210 977	2 890 421
Trade Receivables	10	26 355 537	14 580 942
Cash and cash equivalents	11	1 429 924	9 410 053
		39 075 279	34 077 720
Non-Current Assets			
Investment property		1 556 523	1 556 523
Property, plant and equipment	1	253 161 980	228 826 696
Intangible assets		260 797	271 036
Investments	3	4 586 207	4 043 791
Other asset 1		-	2 186
		259 565 507	234 700 232
Total Assets		298 640 786	268 777 952
Liabilities			
Current Liabilities			
Operating lease liability	4	171 999	23 049
Payables from exchange transactions	17	36 292 615	39 784 584
Consumer deposits	19	629 027	559 513
Unspent conditional grants and receipts	14	5 549 857	11 724 369
Non-CurrentCurrent Provisions	16	9 368 045	7 567 308
Short-Term ptn of LT Liabilities		605 846	534 435
Short-Term ptn of Leases		186 048	717 905
		52 803 437	60 911 163
Non-Current Liabilities			
Other financial liabilities-LT Ptn	15	8 534 157	9 139 087
Finance lease obligation-LT Ptn	13	1 540 630	889 418
Employee benefit obligation	5	10 544 684	7 100 886
Non-CurrentCurrent Provisions	16	2 152 412	2 152 412
		22 771 883	19 281 803
Total Liabilities		75 575 320	80 192 966
Net Assets		223 065 466	188 584 986
Accumulated surplus	12	223 065 466	188 584 986

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Statement of Financial Performance

Figures in Rand	Note(s)	2014	2013
Revenue			
Revenue from exchange transactions			
Service charges	23	56 546 391	45 740 571
Interest received (trading)		3 679 772	1 621 573
Income from agency services		681 975	585 054
Licences and permits		411 179	109 513
Miscellaneous other revenue		76 394	531 859
Rental income		243 339	245 185
Other income 1		1 811 066	1 419 031
Interest received - investment		1 636 606	997 115
Total revenue from exchange transactions		65 086 722	51 249 901
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	22	11 604 147	8 801 692
Other taxation revenue-VAT received : Grants		4 166 706	-
Transfer revenue			
Government grants & subsidies		66 633 019	56 192 592
Public contributions and donations		87 510	45 000
Fines		3 360 266	604 509
Total revenue from non-exchange transactions		85 851 648	65 643 793
Total revenue	20	150 938 370	116 893 694
Expenditure			
Personnel	30	(40 746 000)	(31 561 665)
Remuneration of councillors	31	(3 333 806)	(2 801 007)
Depreciation and amortisation	33	(9 793 469)	(8 256 422)
Impairment loss/ Reversal of impairments	34	(3 218 085)	(2 707)
Finance costs	35	(1 813 955)	(3 041 994)
Debt impairment	32	(5 232 466)	(4 627 433)
Repairs and maintenance		(2 034 245)	(1 660 302)
Bulk purchases	40	(34 172 283)	(22 642 460)
Contracted services	39	(4 533 697)	(4 217 466)
Grants and subsidies paid		(19 631 690)	(18 738 194)
General Expenses	28	(24 387 959)	(12 613 025)
Total expenditure		(148 897 655)	(110 162 675)
Operating surplus	29	2 040 715	6 731 019
Gain (loss) on disposal of assets and liabilities		129 861	(46 294)
Surplus for the year		2 170 576	6 684 725

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2012	188 584 989	188 584 989
Changes in net assets		
Surplus for the year	6 684 725	6 684 725
Other 1	(6 684 728)	(6 684 728)
Total changes	(3)	(3)
Balance at 01 July 2013	188 584 989	188 584 989
Changes in net assets		
Surplus for the year	2 170 576	2 170 576
Creditors correction	32 309 901	32 309 901
Total changes	34 480 477	34 480 477
Balance at 30 June 2014	223 065 466	223 065 466
Note(s)		

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)
Trading as Kannaland Municipality
Financial Statements for the year ended 30 June 2014

Cash Flow Statement

Figures in Rand	Note(s)	2014	2013
Cash flows from operating activities			
Receipts			
Taxation		6 765 425	6 765 425
Sale of goods and services		32 288 194	32 288 194
Grants		64 659 633	64 659 633
Interest income		1 636 606	997 115
Other receipts		(301 830)	2 555 392
Other cash item		-	1 621 573
		105 048 028	108 887 332
Payments			
Employee costs		(32 910 976)	(32 910 976)
Suppliers		(72 235 277)	(44 037 107)
Finance costs		(1 813 955)	(3 041 994)
Other payments		(301 830)	(46 295)
Taxes on surpluses	41	346 884	(2 781 546)
Other cash item		(263 712)	(33 719 749)
		(107 178 866)	(116 537 667)
Net cash flows from operating activities		(2 130 838)	(7 650 335)
Cash flows from investing activities			
Purchase of property, plant and equipment	1	(43 622 176)	(20 774 437)
Proceeds from sale of property, plant and equipment	1	10 652 648	83 011
Purchase of other intangible assets		(80 500)	-
Proceeds from sale of other asset 1		2 186	11 008
Net cash flows from investing activities		(33 047 842)	(20 680 418)
Cash flows from financing activities			
Repayment of other financial liabilities-lt ptn		(604 930)	(11 149 975)
Current Ptn Annuity Loans		71 411	534 435
Capitalised Lease Liabilities		(531 857)	717 905
Movement in loans to golf club		1 937	2 927
Finance lease payments		651 212	740 611
Net cash flows from financing activities		(412 227)	(9 154 097)
Net increase/(decrease) in cash and cash equivalents		(35 590 907)	(37 484 850)
Cash and cash equivalents at the beginning of the year		9 410 053	1 212 671
Cash and cash equivalents at the end of the year	11	(26 180 854)	(36 272 179)

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
--	-----------------	-------------	--------------	------------------------------------	--	-----------

Figures in Rand

Statement of Financial Performance

Revenue

Revenue from exchange transactions

Sale of goods	450	-	450	-	(450)	
Service charges	56 675 605	(3 554 917)	53 120 688	56 546 391	3 425 703	
Interest received (trading)	1 843 660	-	1 843 660	3 679 772	1 836 112	
Income from agency services	424 070	80 000	504 070	681 975	177 905	
Licences and permits	128 650	94 370	223 020	411 179	188 159	
Miscellaneous other revenue	-	-	-	76 394	76 394	
Rental income	272 890	-	272 890	243 339	(29 551)	
Other income 1	1 623 939	122 641	1 746 580	1 811 066	64 486	
Other income - (rollup)	20 000	-	20 000	-	(20 000)	
Interest received - investment	268 310	431 690	700 000	1 636 606	936 606	
Total revenue from exchange transactions	61 257 574	(2 826 216)	58 431 358	65 086 722	6 655 364	

Revenue from non-exchange transactions

Taxation revenue

Property rates	12 117 718	2	12 117 720	11 604 147	(513 573)	
Other taxation revenue-VAT on Grants Received	-	-	-	4 166 706	4 166 706	
Government grants & subsidies	57 655 250	19 218 646	76 873 896	66 633 019	(10 240 877)	

Transfer revenue

Public contributions and donations	10 000	90 000	100 000	87 510	(12 490)	
Fines	1 591 940	(992 940)	599 000	3 360 266	2 761 266	
Total revenue from non-exchange transactions	71 374 908	18 315 708	89 690 616	85 851 648	(3 838 968)	

Total revenue

132 632 482	15 489 492	148 121 974	150 938 370	2 816 396	
--------------------	-------------------	--------------------	--------------------	------------------	--

Expenditure

Personnel	(36 518 595)	(207 820)	(36 726 415)	(40 746 000)	(4 019 585)	
Remuneration of councillors	(2 406 148)	-	(2 406 148)	(3 333 806)	(927 658)	
Depreciation and amortisation	(8 761 040)	-	(8 761 040)	(9 793 469)	(1 032 429)	
Impairment loss/ Reversal of impairments	-	-	-	(3 218 085)	(3 218 085)	
Finance costs	(1 182 030)	-	(1 182 030)	(1 813 955)	(631 925)	
Debt impairment	(2 420 190)	-	(2 420 190)	(5 232 466)	(2 812 276)	
Repairs and maintenance	(3 560 910)	492 058	(3 068 852)	(2 034 245)	1 034 607	
Bulk purchases	(23 983 130)	5 000	(23 978 130)	(34 172 283)	(10 194 153)	
Contracted Services	(1 938 300)	(1 547 700)	(3 486 000)	(4 533 697)	(1 047 697)	
Grants and subsidies paid	(3 543 550)	(17 859 596)	(21 403 146)	(19 631 690)	1 771 456	
General Expenses	(13 753 931)	(21 888 500)	(35 642 431)	(24 387 959)	11 254 472	
Total expenditure	(98 067 824)	(41 006 558)	(139 074 382)	(148 897 655)	(9 823 273)	

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Operating surplus	34 564 658	(25 517 066)	9 047 592	2 040 715	(7 006 877)	
Gain on disposal of assets and liabilities	-	1 503 000	1 503 000	129 861	(1 373 139)	
Surplus before taxation	34 564 658	(24 014 066)	10 550 592	2 170 576	(8 380 016)	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	34 564 658	(24 014 066)	10 550 592	2 170 576	(8 380 016)	
Reconciliation						

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
--	-----------------	-------------	--------------	------------------------------------	--	-----------

Figures in Rand

Statement of Financial Position

Assets

Current Assets

Inventories	-	-	-	1 149 369	1 149 369
Loans to Golf Club	-	-	-	2 186	2 186
Current tax receivable	-	-	-	4 894 022	4 894 022
Receivables from non-exchange transactions	-	-	-	1 033 264	1 033 264
VAT receivable	-	-	-	4 210 977	4 210 977
Consumer debtors	-	-	-	26 355 537	26 355 537
Cash and cash equivalents	-	-	-	1 429 924	1 429 924
	-	-	-	39 075 279	39 075 279

Non-Current Assets

Investment property	-	-	-	1 556 523	1 556 523
Property, plant and equipment	34 563 050	5 814 359	40 377 409	253 161 980	212 784 571
Intangible assets	-	600 000	600 000	260 797	(339 203)
Investments	-	-	-	4 586 207	4 586 207
	34 563 050	6 414 359	40 977 409	259 565 507	218 588 098
Total Assets	34 563 050	6 414 359	40 977 409	298 640 786	257 663 377

Liabilities

Current Liabilities

Operating lease liability	-	-	-	171 999	171 999
Payables from exchange transactions	-	-	-	36 292 615	36 292 615
Consumer deposits	-	-	-	629 027	629 027
Unspent conditional grants and receipts	-	-	-	5 549 857	5 549 857
Non-CurrentCurrent Provisions	-	-	-	9 368 045	9 368 045
Short-Term ptn of LT Liabilities	-	-	-	605 846	605 846
Short-Term ptn of Leases	-	-	-	186 048	186 048
	-	-	-	52 803 437	52 803 437

Non-Current Liabilities

Other financial liabilities-LT Ptn	-	-	-	8 534 157	8 534 157
Finance lease obligation-LT Ptn	-	-	-	1 540 630	1 540 630
Employee benefit obligation	-	-	-	10 544 684	10 544 684
Non-CurrentCurrent Provisions	-	-	-	2 152 412	2 152 412
	-	-	-	22 771 883	22 771 883
Total Liabilities	-	-	-	75 575 320	75 575 320
Net Assets	34 563 050	6 414 359	40 977 409	223 065 466	182 088 057

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	34 564 658	(4 896 008)	29 668 650	223 067 403	193 398 753	
Undefined Difference	(1 608)	11 310 367	11 308 759	(1 937)	(11 310 696)	
Total Net Assets	34 564 658	(4 896 008)	29 668 650	223 067 403	193 398 753	

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
--	--------------------	-------------	--------------	--	---	-----------

Figures in Rand

Cash Flow Statement

Cash flows from operating activities

Receipts

Taxation	-	-	-	6 765 425	6 765 425	
Sale of goods and services	-	-	-	32 288 194	32 288 194	
Grants	-	-	-	64 659 633	64 659 633	
Other receipts	-	-	-	2 555 392	2 555 392	
	-	-	-	106 268 644	106 268 644	

Payments

Employee costs	-	-	-	(32 910 976)	(32 910 976)	
Suppliers	-	-	-	(44 037 107)	(44 037 107)	
Other payments	-	-	-	(46 295)	(46 295)	
	-	-	-	(76 994 378)	(76 994 378)	

Net cash flows from operating activities

	-	-	-	29 274 266	29 274 266	
--	---	---	---	------------	------------	--

Cash flows from investing activities

Purchase of property, plant and equipment	-	-	-	(20 671 374)	(20 671 374)	
---	---	---	---	--------------	--------------	--

Net increase/(decrease) in cash and cash equivalents	-	-	-	8 602 892	8 602 892	
--	---	---	---	-----------	-----------	--

Cash and cash equivalents at the end of the year	-	-	-	8 602 892	8 602 892	
--	---	---	---	-----------	-----------	--

Reconciliation

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
--	--------------------	---	--------------------------------	---	--	--------------	-------------------	-----------------------------	----------	---	--

2014

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Appropriation Statement

Figures in Rand

Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome
---	---	----------------------------	--------------------------------

2013

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Accounting Policies

2014

ACCOUNTING PRINCIPLES AND POLICIES APPLIED IN THE FINANCIAL STATEMENTS

1.1. BASIS OF PREPARATION

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise.

The annual financial statements have been prepared in accordance with the Municipal Finance Management Act (MFMA) and effective standards of Generally Recognised Accounting Practices (GRAP), including any interpretations and directives issued by the Accounting Standards Board (ASB) in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

Accounting policies for material transactions, events or conditions not covered by the GRAP reporting framework, have been developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 (Revised – March 2012) and the hierarchy approved in Directive 5 issued by the Accounting Standards Board.

The Municipality resolved to early adopt the following GRAP standards which have been issued but are not effective yet.

Standard	Description	Effective Date
GRAP 1 (Revised – Mar 2012)	Presentation of Financial Statements	1 April 2013
GRAP 3 (Revised – Mar 2012)	Accounting Policies, Changes in Accounting Estimates and Errors	1 April 2013
GRAP 9 (Revised – Mar 2012)	Revenue from Exchange Transactions	1 April 2013
GRAP 12 (Revised – Mar 2012)	Inventories	1 April 2013
GRAP 13 (Revised – Mar 2012)	Leases	1 April 2013
GRAP 16 (Revised – Mar 2012)	Investment Property	1 April 2013
GRAP 17 (Revised – Mar 2012)	Property, Plant and Equipment	1 April 2013
GRAP 25 (Original – Nov 2009)	Employee Benefits	1 April 2013
GRAP 27 (Revised – Mar 2012)	Agriculture	1 April 2013
GRAP 31 (Revised – Mar 2012)	Intangible Assets	1 April 2013
IGRAP 16 (Issued – Mar 2012)	Intangible Assets – Website Costs	1 April 2013

A summary of the significant accounting policies, which have been consistently applied except where an exemption or transitional provision has been granted, are disclosed below.

Assets, liabilities, revenue and expenses have not been offset except when offsetting is permitted or required by a Standard of GRAP.

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated. The details of any changes in accounting policies are explained in the relevant notes to the Financial Statements.

In terms of Directive 7: "The Application of Deemed Cost on the Adoption of Standards of GRAP" issued by the Accounting Standards Board, the Municipality applied deemed cost to Investment Property, Property, Plant and Equipment and Intangible where the acquisition cost of an asset could not be determined.

1.2. PRESENTATION CURRENCY

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)
Trading as Kannaland Municipality
Financial Statements for the year ended 30 June 2014

Accounting Policies

Amounts reflected in the financial statements are in South African Rand. Financial values are rounded to the nearest one Rand. No foreign exchange transactions are included in the statements.

1.3. GOING CONCERN ASSUMPTION

These annual financial statements have been prepared on a going concern basis.

1.4. COMPARATIVE INFORMATION

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated, unless a standard of GRAP does not require the restatements of comparative information. The nature and reason for the reclassification is disclosed. Where material accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

1.5. MATERIALITY

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decision or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatements judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor. Materiality is determined as 1% of total expenditure.

1.6. PRESENTATION OF BUDGET INFORMATION

The presentation of budget information is prepared in accordance with GRAP 24 and guidelines issued by National Treasury. The comparison of budget and actual amounts are disclosed as a separate additional financial statement, namely Statement of comparison of budget and actual amounts.

Budget information is presented on the accrual basis and is based on the same period as the actual amounts, i.e. 1 July 2012 to 30 June 2013. The budget information is therefore on a comparable basis to the actual amounts.

The comparable information includes the following:

the approved and final budget amounts;
actual amounts and final budget amounts;

Explanations for differences between the approved and final budget are included in the Statement of Comparison of Budget and Actual Amounts.

Explanations for material differences between the final budget amounts and actual amounts are included in the Statement of Comparison of Budget and Actual Amounts.

The disclosure of comparative information in respect of the previous period is not required in terms of GRAP 24. No amendments or disclosure requirements in terms of GRAP 3 (Revised – March 2012) has been made.

1.7. STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Accounting Policies

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the Municipality:

Standard	Description	Effective Date
GRAP 6 (Revised – Nov 2010)	Consolidated and Separate Financial Statements The objective of this Standard is to prescribe the circumstances in which consolidated and separate financial statements are to be prepared and the information to be included in those financial statements so that the consolidated financial statements reflect the financial performance, financial position and cash flows of an economic entity as a single entity. No significant impact is expected as the Municipality does not have any entities at this stage to be consolidated.	Unknown
GRAP 7 (Revised – Mar 2012)	Investments in Associate This Standard prescribes the accounting treatment for investments in associates where the investment in the associate leads to the holding of an ownership interest in the form of a shareholding or other form of interest in the net assets. No significant impact is expected as the Municipality does have any interest in associates.	1 April 2013
GRAP 8 (Revised – Nov 2010)	Interest in Joint Ventures The objective of this Standard is to prescribe the accounting treatment of jointly controlled operations, jointly controlled assets and jointly controlled entities and to provide alternatives for the recognition of interests in jointly controlled entities. No significant impact is expected as the Municipality is not involved in any joint ventures.	Unknown

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Accounting Policies

GRAP 18 (Original – Feb 2011)	Segment Reporting The objective of this Standard is to establish principles for reporting financial information by segments.	Unknown
	No significant impact is expected as information to a large extent is already included in the appendices to the financial statements which do not form part of the audited financial statements.	
GRAP 20 (Original – June 2011)	Related Party Disclosure The objective of this Standard is to ensure that a Municipality's financial statements contains the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.	Unknown
	The Municipality resolved to adopt the disclosure requirements as per GRAP 20. The information is therefore included in the financial statements.	
GRAP 105 (Original – Nov 2010)	Transfer of Functions Between Entities Under Common Control The objective of this Standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control.	Unknown
	No significant impact expected as no such transactions or events are expected in the foreseeable future.	
GRAP 106 (Original – Nov 2010)	Transfer of Functions Between Entities Not Under Common Control The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control.	Unknown
	No significant impact expected as no such transactions or events are expected in the foreseeable future.	

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Accounting Policies

GRAP 107 (Original – Nov 2010)	Mergers The objective of this Standard is to establish accounting principles for the combined entity and combining entities in a merger.	Unknown
IGRAP 11	No significant impact expected as no such transactions or events are expected in the foreseeable future. Consolidation - Special Purpose Entities (SPE) The objective of this Interpretation of the Standard is to prescribe under what circumstances an entity should consolidate a SPE.	Unknown
IGRAP 12	No significant impact is expected as the Municipality does not have any SPE's at this stage. Jointly Controlled Entities non-monetary contributions The objective of this Interpretation of the Standard is to prescribe the treatment of profit/loss when an asset is sold or contributed by the venturer to a Jointly Controlled Entity (JCE).	Unknown
	No significant impact is expected as the Municipality does not have any JCE's at this stage.	

These standards, amendments and interpretations will not have a significant impact on the Municipality once implemented.

1.8. RESERVES

1.8.1 Capital Replacement Reserve (CRR)

In order to finance the provision of infrastructure and other items of property, plant and equipment from internal sources, amounts are transferred from the accumulated surplus/(deficit) to the CRR. The cash in the CRR can only be utilized to finance items of property, plant and equipment. The CRR is reduced and the accumulated surplus/(deficit) are credited by a corresponding amount when the amounts in the CRR are utilized.

1.8.2 Housing Development Fund

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from National and Provincial Government, used to finance housing selling schemes undertaken by the Municipality, were extinguished on 1 April 1998 and transferred to the Housing Development Fund. Housing selling schemes, both completed and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sale of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Accounting Policies

1.9. LEASES

1.9.1 Municipality as Lessee

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the Municipality. Property, plant and equipment or intangible assets (excluding licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights) subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the Municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant and equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to de-recognition of financial instruments are applied to lease payables.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are recognised on a straight-line basis over the term of the relevant lease. The difference between the straight-lined expenses and actual payments made will give rise to a liability. The Municipality shall recognise the aggregate benefit of incentives as a reduction of rental expense over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

1.9.2 Municipality as Lessor

Under a finance lease, the Municipality recognises the lease payments to be received in terms of a lease agreement as an asset (receivable). The receivable is calculated as the sum of all the minimum lease payments to be received, plus any unguaranteed residual accruing to the Municipality, discounted at the interest rate implicit in the lease. The receivable is reduced by the capital portion of the lease instalments received, with the interest portion being recognised as interest revenue on a time proportionate basis. The accounting policies relating to de-recognition and impairment of financial instruments are applied to lease receivables.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease revenue is recognised on a straight-line basis over the term of the relevant lease. The difference between the straight-lined revenue and actual payments received will give rise to an asset. The Municipality shall recognise the aggregate cost of incentives as a reduction of rental revenue over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern over which the benefit of the leased asset is diminished.

1.10.1 UNSPENT CONDITIONAL GOVERNMENT GRANTS AND RECEIPTS

Conditional government grants are subject to specific conditions. If these specific conditions are not met, the monies received are repayable.

Unspent conditional grants are financial liabilities that are separately reflected on the Statement of Financial Position. They represent unspent government grants, subsidies and contributions from the public.

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Accounting Policies

This liability always has to be cash-backed. The following provisions are set for the creation and utilisation of this creditor:

Unspent conditional grants are recognised as a liability when the grant is received.

When grant conditions are met an amount equal to the conditions met are transferred to revenue in the Statement of Financial Performance.

The cash which backs up the creditor is invested as individual investment or part of the general investments of the Municipality until it is utilised.

Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor. If it is the Municipality's interest it is recognised as interest earned in the Statement of Financial Performance.

1.10.2 UNPAID CONDITIONAL GOVERNMENT GRANTS AND RECEIPTS

Unpaid conditional grants are assets in terms of the Framework that are separately reflected on the Statement of Financial Position. The asset is recognised when the Municipality has an enforceable right to receive the grant or if it is virtually certain that it will be received based on that grant conditions have been met. They represent unpaid government grants, and subsidies

1.11 UNSPENT PUBLIC CONTRIBUTIONS

Public contributions are subject to specific conditions. If these specific conditions are not met, the monies received are repayable.

Unspent public contributions are financial liabilities that are separately reflected on the Statement of Financial Position. They represent unspent contributions from the public.

This liability always has to be cash-backed. The following provisions are set for the creation and utilisation of this creditor:

Unspent public contributions are recognised as a liability when the grant is received.

When grant conditions are met an amount equal to the conditions met are transferred to revenue in the Statement of Financial Performance.

The cash which backs up the creditor is invested as individual investment or part of the general investments of the municipality until it is utilised.

Interest earned on the investment is treated in accordance with the public contribution conditions. If it is payable to the funder it is recorded as part of the creditor. If it is the municipality's interest it is recognised as interest earned in the Statement of Financial Performance.

1.12. PROVISIONS AND CONTINGENT LIABILITY OR ASSET

Provisions are recognised when the Municipality has a present legal or constructive obligation as a result of past events, it is possible that an outflow of resource embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate of future outflows of resources. Where the effect is material, non-current provisions are discounted to their present value using a discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability (for example in the case of obligations for the rehabilitation of land).

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Accounting Policies

The Municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is possible.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:

The Municipality has a detailed formal plan for the restructuring identifying at least:

- the business or part of a business concerned;
- the principal locations affected;
- the location, function and approximate number of employees who will be compensated for terminating their services;
- the expenditures that will be undertaken; and
- when the plan will be implemented.

The Municipality has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the reporting date.

If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provision shall be de-recognised..

1.13. EMPLOYEE BENEFITS

Post Retirement Medical Obligations

The Municipality provides post-retirement medical benefits by subsidizing the medical aid contributions of certain retired staff according to the rules of the medical aid funds. Council pays 60% as contribution and the remaining 40% are paid by the members. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The present value of the defined benefit liability is actuarially determined in accordance with GRAP 25 – Employee benefits (using a discount rate applicable to high quality government bonds). The plan is a defined benefit plan and is unfunded.

These contributions are charged to the Statement of Financial Performance when employees have rendered the service entitling them to the contribution. The liability was calculated by means of the projected unit credit actuarial valuation method. The liability in respect of current pensioners is regarded as fully accrued, and is therefore not split between a past (or accrued) and future in-service element. The liability is recognised at the fair value of the obligation. Payments made by the Municipality are set-off against the liability, including notional interest, resulting from the valuation by the actuaries and are charged against the Statement of Financial

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Accounting Policies

Performance as employee benefits upon valuation.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions, is charged or credited to the Statement of Financial Performance in the period that it occurs. These obligations are valued periodically by independent qualified actuaries.

Long Service Awards

Long service awards are provided to employees who achieve certain pre-determined milestones of service within the Municipality. The Municipality's obligation under these plans is valued by independent qualified actuaries periodically and the corresponding liability is raised. Payments are set-off against the liability, including notional interest, resulting from the valuation by the actuaries and are charged against the Statement of Financial Performance as employee benefits upon valuation. Defined benefit plans are post-employment plans other than defined contribution plans.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions, is charged or credited to the Statement of Financial Performance in the period that it occurs. These obligations are valued periodically by independent qualified actuaries.

Provision for Staff Leave

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total amount of leave days due to employees at year end and also on the total remuneration package of the employee.

Accumulating leave is carried forward and can be used in future periods if the current period's entitlement is not used in full. All unused leave will be paid out to the specific employee at the end of that employee's employment term.

Accumulated leave is vesting.

Staff Bonuses Accrued

Liabilities for staff bonuses are recognised as they accrue to employees. The liability at year end is based on bonus accrued at year end for each employee.

Provision for Performance Bonuses

A provision, in respect of the liability relating to the anticipated costs of performance bonuses payable to Section 57 employees, is recognised as it accrue to Section 57 employees. Municipal entities' performance bonus provisions are based on the employment contract stipulations as well as previous performance bonus payment trends.

Pension and retirement fund obligations

The Municipality provides retirement benefits for its employees and councillors. Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year they become payable. Defined benefit plans are post-employment benefit plans other than defined contribution plans. The defined benefit funds, which are administered on a provincial basis, are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on a proportional basis to all participating municipalities. The contributions and lump sum

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Accounting Policies

payments are charged against income in the year they become payable. Sufficient information is not available to use defined benefit accounting for a multi-employer plan. As a result, defined benefit plans have been accounted for as if they were defined contribution plans.

Other Short-term Employee Benefits

When an employee has rendered service to the entity during a reporting period, the entity recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and

as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

1.14. BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset unless it is inappropriate to do so. The amount of borrowing costs that the Municipality capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period. The Municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete. . Borrowing costs incurred other than on qualifying assets are recognised as an expense in the Statement of Financial Performance when incurred.

1.15. PROPERTY, PLANT AND EQUIPMENT

1.15.1 Initial Recognition

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year. The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if it is probable that future economic benefits or service potential associated with the item will flow to the entity, and the cost or fair value of the item can be measured reliably. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs directly attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Where an asset is acquired by the Municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the assets acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Accounting Policies

can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

1.15.2 Subsequent Measurement – Cost Model

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

Where the Municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

1.15.3 Depreciation and Impairment

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. The annual depreciation rates are based on the following estimated useful lives:

	Years		Years
<u>Infrastructure</u>		<u>Other</u>	
Stormwater and Roads	3-114	Computer Equipment	1-12
Electricity	10-57	Emergency equipment	2-6
Water	6-59	Furniture & Fittings	1-18
Refuse	15-34	Motor vehicles	1-18
Sewerage	10-113	Office Equipment	1-14
Fencing	25	Plant and equipment	1-18
		Other	6
<u>Community</u>		<u>Land and Buildings</u>	
Recreation Grounds	15-69	Buildings	5-480
Civic Building	30		
Swimming Pools	9-72		
Libraries	30		
Parks and gardens	30		
Cemetery	30		
<u>Finance lease assets</u>			
Office equipment	4		

Property, plant and equipment are reviewed at each reporting date for any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The impairment charged to the Statement of Financial Performance is the excess of the carrying value over the recoverable amount.

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Accounting Policies

An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of a impairment is recognised in the Statement of Financial Performance.

1.15.4 De-recognition

Items of property, plant and equipment are derecognised when the asset is disposed or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.15.5 Property, Plant and Equipment – application of deemed cost (Directive 7)

The Municipality opted to take advantage of the transitional provisions as contained in Directive 7 of the Accounting Standards Board, issued in December 2009. The Municipality applied deemed cost where the acquisition cost of an asset could not be determined.

1.16. INTANGIBLE ASSETS

1.16.1 Initial Recognition

An intangible asset is an identifiable non-monetary asset without physical substance.

An asset meets the identifiability criterion in the definition of an intangible asset when it:

is separable, i.e. is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or
arises from contractual rights (including rights arising from binding arrangements) or other legal rights (excluding rights granted by statute), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

The Municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the Municipality and the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

1.16.2 Subsequent Measurement – Cost Model

Intangible assets are subsequently carried at cost less accumulated amortisation and any accumulated impairments losses. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test.

1.16.3 Amortisation and Impairment

Amortisation is charged so as to write off the cost or valuation of intangible assets over their estimated useful lives using the straight line method. Amortisation of an asset begins when it is available for use, i.e. when it is in

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Accounting Policies

the condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are amortised separately. The estimated useful lives, residual values and amortisation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. The annual amortisation rates are based on the following estimated useful lives:

<u>Intangible Assets</u>	<u>Years</u>	Computer Software	3-19
--------------------------	--------------	-------------------	------

Intangible assets are derecognised when the asset is disposed or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.16.4 De-recognition

1.17. INVESTMENT PROPERTY

1.17.1 Initial Recognition

Investment property shall be recognised as an asset when, and only when:

it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the entity, and
the cost or fair value of the investment property can be measured reliably.

Investment property includes property (land or a building, or part of a building, or both land and buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations. Property with a currently undetermined use is also classified as investment property.

At initial recognition, the Municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition. The cost of self-constructed investment property is measured at cost.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Municipality accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

1.17.2 Subsequent Measurement – Cost Model

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Accounting Policies

Subsequent to initial recognition, items of investment property are measured at cost less accumulated depreciation and any accumulated impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

1.17.3 Depreciation and Impairment – Cost Model

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

<u>Investment Property</u>	<u>Years</u>
Buildings	25-30

1.17.4 De-recognition

Investment property is derecognised when it is disposed or when there are no further economic benefits expected from the use of the investment property. The gain or loss arising on the disposal or retirement of an item of investment property is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.17.5 Application of deemed cost - Directive 7

The Municipality opted to take advantage of the transitional provisions as contained in Directive 7 of the Accounting Standards Board, issued in December 2009. The Municipality applied deemed cost where the acquisition cost of an asset could not be determined.

1.18. NON-CURRENT ASSETS HELD FOR SALE

1.18.1 Initial Recognition

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

1.18.2 Subsequent Measurement

Non-current assets held for sale (or disposal group) are measured at the lower of carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

1.19. IMPAIRMENT OF NON-FINANCIAL ASSETS

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Accounting Policies

1.19.1 Cash-generating assets

Cash-generating assets are assets held with the primary objective of generating a commercial return.

The Municipality assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the municipality estimates the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. Impairment losses are recognised in the Statement of Financial Performance in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Municipality estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Statement of Financial Performance.

1.19.2 Non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

The Municipality assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Municipality estimates the asset's recoverable service amount.

An asset's recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use. If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss recorded in the Statement of Financial Performance.

The value in use of a non-cash-generating asset is the present value of the asset's remaining service potential. The present value of the remaining service potential of the asset is determined using any one of the following approaches:

depreciation replacement cost approach - the present value of the remaining service potential of an asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)
Trading as Kannaland Municipality
Financial Statements for the year ended 30 June 2014

Accounting Policies

restoration cost approach - the cost of restoring the service potential of an asset to its pre-impaired level. Under this approach, the present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is usually determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

service unit approach - the present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform with the reduced number of service units expected from the asset in its impaired state. As in the restoration cost approach, the current cost of replacing the remaining service potential of the asset before impairment is usually determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

The Municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased. If any such indication exists, the Municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for an asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset is increased to its recoverable service amount. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods. Such a reversal of an impairment loss is recognised in the Statement of Financial Performance.

1.20. NON CURRENT INVESTMENTS

Financial instruments, which include, investments in municipal entities and fixed deposits invested in registered commercial banks, are stated at amortised cost.

Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified.

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

The carrying amounts of such investments are reduced to recognise any decline, other than a temporary decline, in the value of individual investments.

1.21. INVENTORIES

1.21.1 Initial Recognition

Inventories comprise current assets held for sale, consumption or distribution during the ordinary course of business. Inventories shall be recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the entity, and the cost of the inventories can be measured reliably. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Accounting Policies

non-recoverable taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where inventory is acquired by the Municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

1.21.2 Subsequent Measurement

Inventories, consisting of consumable stores, raw materials, work-in-progress and finished goods, are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost. Redundant and slow-moving inventories are identified and written down. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

In general, the basis of allocating cost to inventory items is the weighted average method.

Cost of land held for sale is assigned by using specific identification of their individual costs.

1.22. FINANCIAL INSTRUMENTS

Financial instruments recognised on the Statement of Financial Position include receivables (both from exchange transactions and non-exchange transactions), cash and cash equivalents, annuity loans and payables (both from exchange and non-exchange transactions).

1.22.1 Initial Recognition

Financial instruments are initially recognised when the Municipality becomes a party to the contractual provisions of the instrument at fair value plus, in the case of a financial asset or financial liability not at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability

1.22.2 Subsequent Measurement

Financial Assets are categorised according to their nature as either financial assets at fair value, financial assets at amortised cost or financial assets at cost. Financial Liabilities are categorised as either at fair value, financial liabilities at cost or financial liabilities carried at amortised cost ("other"). The subsequent measurement of financial assets and liabilities depends on this categorisation.

1.22.2.1 Receivables

Receivables are classified as financial assets at amortised cost, and are subsequently measured amortised cost using the effective interest rate method.

For amounts due from debtors carried at amortised cost, the Municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. Objective evidence of impairment includes significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Accounting Policies

default or delinquency in payments (more than 90 days overdue). If the Municipality determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Financial Performance. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the municipality. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognised in the Statement of Financial Performance.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate, if material. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

1.22.2.2 Payables and Annuity Loans

Financial liabilities consist of payables and annuity loans. They are categorised as financial liabilities held at amortised cost, are initially recognised at fair value and subsequently measured at amortised cost using an effective interest rate, which is the initial carrying amount, less repayments, plus interest.

1.22.2.3 Cash and Cash Equivalents

Cash includes cash on hand (including petty cash) and cash with banks. Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, highly liquid deposits and net of bank overdrafts. The Municipality categorises cash and cash equivalents as financial assets carried at amortised cost.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities: other financial liabilities carried at amortised cost.

1.22.3 **De-recognition of Financial Instruments**

1.22.3.1 Financial Assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

the rights to receive cash flows from the asset have expired; or
the Municipality has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and
either (a) the Municipality has transferred substantially all the risks and rewards of the asset, or (b) the Municipality has neither transferred nor retained substantially all the risks and rewards of the asset, but has

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Accounting Policies

transferred control of the asset.

When the Municipality has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the old asset is derecognised and a new asset is recognised to the extent of the Municipality's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Municipality could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Municipality's continuing involvement is the amount of the transferred asset that the Municipality may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Municipality's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

1.22.3.2 Financial Liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the Statement of Financial Performance.

1.22.4 **Offsetting of Financial Instruments**

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously

1.23. REVENUE

1.23.1 **Revenue from Non-Exchange Transactions**

Revenue from non-exchange transactions refers to transactions where the Municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset. A corresponding liability is raised to the extent that the grant, transfer or donation is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. At the time of initial recognition the full amount of revenue is recognised. If the Municipality does not enforce its obligation to collect the revenue, is a subsequent event. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportionate basis as an exchange transaction.

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Accounting Policies

Fine Revenue constitutes both spot fines and summonses. Revenue from spot fines and summonses is recognised as revenue when the receivables meet the definition of an asset and satisfy the criteria for recognition as an asset.

Revenue from public contributions and donations is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment qualifies for recognition and first becomes available for use by the Municipality. Where public contributions have been received but the Municipality has not met the related conditions, it is recognised as an unspent public contribution (liability).

Revenue from third parties i.e. insurance payments for assets impaired, are recognised when it can be measured reliably and is not being offset against the related expenses of repairs or renewals of the impaired assets.

Contributed property, plant and equipment is recognised when such items of property, plant and equipment qualifies for recognition and become available for use by the Municipality.

All unclaimed deposits are initially recognised as a liability until 36 months expires, when all unclaimed deposits into the Municipality's bank account will be treated as revenue. This policy is in line with prescribed debt principle as enforced by the law.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No. 56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

Revenue shall be measured at the fair value of the consideration received or receivable.

When, as a result of a non-exchange transaction, a Municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the present obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability will be recognised as revenue.

1.23.2 Revenue from Exchange Transactions

Revenue from exchange transactions refers to revenue that accrued to the Municipality directly in return for services rendered/ goods sold, the value of which approximates the consideration received or receivable. At the time of initial recognition the full amount of revenue is recognised. If the Municipality does not enforce its obligation to collect the revenue, is a subsequent event.

Service charges relating to electricity and water are based on consumption and a basic charge as per Council resolution. Meters are read on a monthly basis and are recognised as revenue when invoiced. Where the Municipality was unable to take the actual month's reading of certain consumers, a provisional estimate of consumption for that month will be created. . The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period.

Revenue from the sale of electricity prepaid meter cards is recognised at the point of sale. It is estimated that pre-paid electricity is consumed within 5 to 7 days after date of purchase. The pre-paid electricity sold, but not consumed yet at year-end is disclosed as under Payables from Exchange Transactions in the Statement of

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Accounting Policies

Financial Position.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the recorded number of refuse points per property.

Service charges relating to sanitation (sewerage) are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage. In the case of residential property a fixed monthly tariff is levied and in the case of commercial property a tariff is levied based on the number of sewerage connection on the property. Service charges based on a basic charge as per Council resolution.

Interest revenue is recognised using the effective interest rate method.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Dividends are recognised on the date that the Municipality becomes entitled to receive the dividend.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant tariff. This includes the issuing of licences and permits.

Revenue from the sale of goods is recognised when substantially all the risks and rewards in those goods are passed to the consumer.

Revenue arising out of situations where the Municipality acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the municipality as compensation for executing the agreed services.

Revenue shall be measured at the fair value of the consideration received or receivable.

The amount of revenue arising on a transaction is usually determined by agreement between the entity and the purchaser or user of the asset or service. It is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the entity.

In most cases, the consideration is in the form of cash or cash equivalents and the amount of revenue is the amount of cash or cash equivalents received or receivable. However, when the inflow of cash or cash equivalents is deferred, the fair value of the consideration may be less than the nominal amount of cash received or receivable. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The imputed rate of interest is the more clearly determinable of either:

The prevailing rate for a similar instrument of an issuer with a similar credit rating; or
A rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.

The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue.

When goods or services are exchanged or swapped for goods or services which are of a similar nature and value, the exchange is not regarded as a transaction that generates revenue. When goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction that generates revenue. The revenue is measured at the fair value of the goods or services received, adjusted by the

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Accounting Policies

amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

1.24. RELATED PARTIES

The Municipality resolved to adopt the disclosure requirements as per GRAP 20 – “Related Party Disclosures”.

A related party is a person or an entity:

with the ability to control or jointly control the other party,
or exercise significant influence over the other party, or vice versa,
or an entity that is subject to common control, or joint control.

The following are regarded as related parties of the Municipality:

A person or a close member of that person's family is related to the Municipality if that person:
has control or joint control over the Municipality.
has significant influence over the Municipalities. Significant influence is the power to participate in the financial and operating policy decisions of the Municipality.
is a member of the management of the Municipality or its controlling entity.

An entity is related to the Municipality if any of the following conditions apply:
the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others).
one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member).
both entities are joint ventures of the same third party.
one entity is a joint venture of a third entity and the other entity is an associate of the third entity.
the entity is a post-employment benefit plan for the benefit of employees of either the Municipality or an entity related to the Municipality. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity.
the entity is controlled or jointly controlled by a person identified in (a).
a person identified in (a) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by that person in their dealings with the Municipality. A person is considered to be a close member of the family of another person if they:

are married or live together in a relationship similar to a marriage; or
are separated by no more than two degrees of natural or legal consanguinity or affinity.

Management (formerly known as “Key Management”) includes all persons having the authority and responsibility for planning, directing and controlling the activities of the Municipality, including:

all members of the governing body of the Municipality;
a member of the governing body of an economic entity who has the authority and responsibility for planning, directing and controlling the activities of the Municipality;
any key advisors of a member, or sub-committees, of the governing body who has the authority and responsibility for planning, directing and controlling the activities of the Municipality; and
the senior management team of the Municipality, including the chief executive officer or permanent head of the Municipality, unless already included in (a).

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Accounting Policies

Management personnel include:

All directors or members of the governing body of the Municipality, being the Executive Mayor, Deputy Mayor, Speaker and members of the Mayoral Committee.

Other persons having the authority and responsibility for planning, directing and controlling the activities of the reporting Municipality being the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

Remuneration of management includes remuneration derived for services provided to the Municipality in their capacity as members of the management team or employees. Benefits derived directly or indirectly from the Municipality for services in any capacity other than as an employee or a member of management do not meet the definition of remuneration. Remuneration of management excludes any consideration provided solely as a reimbursement for expenditure incurred by those persons for the benefit of the Municipality.

The Municipality operates in an economic environment currently dominated by entities directly or indirectly owned by the South African government. As a result of the Constitutional independence of all three spheres of government in South Africa, only parties within the same sphere of government will be considered to be related parties. Only transactions with such parties which are not at arm's length and not on normal commercial terms are disclosed.

1.25. UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in a form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No. 56 of 2003). Unauthorised expenditure is accounted for as an expense (measured at actual cost incurred) in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.26. IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No. 56 of 2003), the Municipal Systems Act (Act No. 32 of 2000), the Public Office Bearers Act, and (Act. No. 20 of 1998) or is in contravention of the Municipality's Supply Chain Management Policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure (measured at actual cost incurred) in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.27. FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and could have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure (measured at actual cost incurred) in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.28. CONTINGENT LIABILITIES

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. A contingent liability could also be a present obligation that arises from past events, but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)
Trading as Kannaland Municipality
Financial Statements for the year ended 30 June 2014

Accounting Policies

to the obligation or the amount of the obligation cannot be measures with sufficient reliability.

Management judgement is required when recognising and measuring contingent liabilities.

1.29. PRESENTATION OF BUDGET INFORMATION

The presentation of budget information was prepared in accordance with the best practice guidelines issued by National Treasury. The presentation of budget information is in line with the basis of accounting as per the GRAP Framework. GRAP 24: Presentation of Budget Information in Financial Statements is not yet effective. This standard brings new rules in respect of presentation of budget information.

1.30. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying the Municipality's accounting policy, management has made the following significant accounting judgements, estimates and assumptions, which have the most significant effect on the amounts recognised in the financial statements:

Post-retirement medical obligations

The cost of post-retirement medical obligations is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Major assumptions used are disclosed in note 4 of the Annual Financial Statements. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

Impairment of Receivables

The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This was performed per service-identifiable categories across all classes of debtors.

Property, Plant and Equipment

The useful lives of property, plant and equipment are based on management's estimation. Infrastructure's useful lives are based on technical estimates of the practical useful lives for the different infrastructure types, given engineering technical knowledge of the infrastructure types and service requirements. For other assets and buildings management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

Management referred to the following when making assumptions regarding useful lives and residual values of Property, Plant and Equipment.

The useful life of movable assets was determined using the age of similar assets available for sale in the active market. Discussions with people within the specific industry were also held to determine useful lives. Local Government Industry Guides was used to assist with the deemed cost and useful life of infrastructure assets.

The Municipality referred to buildings in other municipal areas to determine the useful life of buildings. The Municipality also consulted with engineers to support the useful life of buildings, with specific reference to the structural design of buildings.

For deemed cost applied to other assets as per adoption of Directive 7, management used the

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Accounting Policies

depreciation cost method which was based on assumptions about the remaining duration of the assets.

The cost for depreciated replacement cost was determined by using either one of the following:

cost of items with a similar nature currently in the Municipality's asset register;

cost of items with a similar nature in other municipalities' asset registers, given that the other municipality has the same geographical setting as the Municipality and that the other municipality's asset register is considered to be accurate;

cost as supplied by suppliers.

Intangible Assets

The useful lives of intangible assets are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate.

Management referred to the following when making assumptions regarding useful lives of intangible assets:

Reference was made to intangibles used within the Municipality and other municipalities to determine the useful life of the assets.

For deemed cost applied to intangible assets as per adoption of Directive 7, management used the depreciation cost method which was based on assumptions about the remaining duration of the assets.

Investment Property

The useful lives of investment property are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their economic lives, and in what condition they will be at that time.

Management referred to the following when making assumptions regarding useful lives and valuation of investment property:

The Municipality referred to buildings in other municipal areas to determine the useful life of buildings.

The Municipality also consulted with professional engineers and qualified valuers to support the useful life of buildings.

Provisions and Contingent Liabilities

Management judgement is required when recognising and measuring provisions and when measuring contingent liabilities. Provisions are discounted where the time value effect is material.

Revenue Recognition

Accounting Policy 1.23.1 on Revenue from Non-Exchange Transactions and Accounting Policy 1.23.2 on Revenue from Exchange Transactions describes the conditions under which revenue will be recognised by management of the Municipality. In making their judgement, management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GRAP 23: Revenue from Non-Exchange Transactions.). Specifically, whether the Municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services are rendered,

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Accounting Policies

whether the service has been performed. Revenue from the issuing of spot fines and summonses has been recognised on the accrual basis using estimates of future collections based on the actual results of prior periods. The management of the Municipality is satisfied that recognition of the revenue in the current year is appropriate.

Provision for Landfill Sites

The provision for rehabilitation of the landfill site is recognised as and when the environmental liability arises. The provision is calculated by a qualified environmental engineer. The provision represents the net present value of the expected future cash flows to rehabilitate the landfill site at year end. To the extent that the obligations relate to an asset, it is capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related asset is charged to the Statement of Financial Performance.

Management referred to the following when making assumptions regarding provisions:

Professional engineers were utilised to determine the cost of rehabilitation of landfill sites as well as the remaining useful life of each specific landfill site.

Interest rates (investment rate) linked to prime was used to calculate the effect of time value of money.

Provision for Staff leave

Staff leave is accrued to employees according to collective agreements. Provision is made for the full cost of accrued leave at reporting date. This provision will be realised as employees take leave or when employment is terminated.

Provision for Performance bonuses

The provision for performance bonuses represents the best estimate of the obligation at year end and is based on historic patterns of payment of performance bonuses. Performance bonuses are subject to an evaluation by Council.

Pre-paid electricity estimation

Pre-paid electricity is only recognised as income once the electricity is consumed. The pre-paid electricity balance (included under payables) represents the best estimate of electricity sold at year-end that is still unused. The average pre-paid electricity sold per day during the year under review is used and the estimate is calculated using between 5 and 10 days' worth of unused electricity.

Componentisation of Infrastructure assets

All infrastructure assets are unbundled into their significant components in order to depreciate all major components over the expected useful lives. The cost of each component is estimated based on the current market price of each component, depreciated for age and condition and recalculated to cost at the acquisition date if known or to the date of initially adopting the standards of GRAP.

1.31. TAXES – VALUE ADDED TAX

Revenue, expenses and assets are recognised net of the amounts of value added tax. The net amount of Value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

1.32. CAPITAL COMMITMENTS

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Accounting Policies

Capital commitments disclosed in the financial statements represents the balance committed to capital projects on reporting date that will be incurred in the period subsequent to the specific reporting date.

1.33. EVENTS AFTER REPORTING DATE

Events after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and

those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

If non-adjusting events after the reporting date are material, the Municipality discloses the nature and an estimate of the financial effect.

Amendments to accounting policies are reported as and when deemed necessary based on the relevance of any such amendment to the format and presentation of the financial statements. The principal amendments to matters disclosed in the current financial statements include fundamental errors, and the treatment of assets financed by external grants.

S

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Figures in Rand

2014

2013

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Figures in Rand

1. Property, plant and equipment

	2014			2013		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	9 165 372	-	9 165 372	4 228 722	-	4 228 722
Buildings	2 045 753	(521 175)	1 524 578	6 778 131	(1 198 944)	5 579 187
Plant and machinery	1 168 841	(890 542)	278 299	1 167 488	(747 085)	420 403
Furniture and fixtures	1 177 452	(698 271)	479 181	1 197 559	(740 368)	457 191
Motor vehicles	4 163 341	(2 625 485)	1 537 856	4 038 765	(2 090 661)	1 948 104
Office equipment	935 585	(489 768)	445 817	896 585	(489 768)	406 817
IT equipment	1 363 455	(1 248 327)	115 128	1 189 056	(769 210)	419 846
Infrastructure	321 542 881	(102 875 274)	218 667 607	294 378 418	(95 272 063)	199 106 355
Community	24 239 964	(5 001 009)	19 238 955	19 101 550	(4 430 687)	14 670 863
Other property, plant and equipment	21 719	(18 617)	3 102	21 719	(18 617)	3 102
Other leased Assets # 1	2 526 310	(788 872)	1 737 438	2 253 291	(635 832)	1 617 459
Housing development fund	588	(31 941)	(31 353)	588	(31 941)	(31 353)
Total	368 351 261	(115 189 281)	253 161 980	335 251 872	(106 425 176)	228 826 696

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Figures in Rand

1. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Disposals	Depreciation	Total
Land	4 228 722	5 888 000	(951 350)	-	9 165 372
Buildings	5 579 187	-	(4 732 378)	677 769	1 524 578
Plant and machinery	420 403	1 353	-	(143 457)	278 299
Furniture and fixtures	457 191	47 088	(67 195)	42 097	479 181
Motor vehicles	1 948 104	230 400	(105 824)	(534 824)	1 537 856
Office equipment	406 817	39 000	-	-	445 817
IT equipment	419 846	261 592	(87 193)	(479 117)	115 128
Infrastructure	199 106 355	31 743 310	(4 578 847)	(7 603 211)	218 667 607
Community	14 670 863	5 138 414	-	(570 322)	19 238 955
Other property, plant and equipment	3 102	-	-	-	3 102
Other leased Assets # 1	1 617 459	273 019	-	(153 040)	1 737 438
Housing development fund	(31 353)	-	-	-	(31 353)
	228 826 696	43 622 176	(10 522 787)	(8 764 105)	253 161 980

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Figures in Rand

1. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	4 228 722	-	-	-	-	-	4 228 722
Buildings	6 778 131	-	-	-	(1 198 944)	-	5 579 187
Plant and machinery	1 140 802	28 432	(1 746)	-	(755 697)	8 612	420 403
Furniture and fixtures	1 216 401	-	(18 842)	-	(740 368)	-	457 191
Motor vehicles	4 064 519	-	(25 754)	-	(2 090 661)	-	1 948 104
Office equipment	740 939	163 465	(7 818)	-	(489 769)	-	406 817
IT equipment	1 245 898	-	(73 849)	17 007	(769 210)	-	419 846
Infrastructure	284 407 734	16 929 232	-	-	(102 230 611)	-	199 106 355
Community	17 590 107	1 511 441	-	-	(4 430 685)	-	14 670 863
Other property, plant and equipment	23 014	-	(1 296)	-	(18 616)	-	3 102
Other leased Assets # 1	111 424	2 141 867	-	-	(635 832)	-	1 617 459
Housing development fund	(31 353)	-	-	-	-	-	(31 353)
	321 516 338	20 774 437	(129 305)	17 007	(113 360 393)	8 612	228 826 696

Compensation received for losses on property, plant and equipment – included in operating profit.

Assets subject to finance lease (Net carrying amount)

Other leased Assets # 1	1 737 438	1 617 459
-------------------------	-----------	-----------

Reconciliation of Work-in-Progress 2014

Reconciliation of Work-in-Progress 2013

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Figures in Rand	2014	2013
-----------------	------	------

1. Property, plant and equipment (continued)

Heritage assets

The following heritage assets appear in council's asset register and is valued at R1,00 each. It is useful but management is considering donating it to the Langenhoven museum in Oudtshoorn.

"Taal Monument"	Date: 1905
Work of art - C.J. Langenhoven - Sculpture :	Date: 1900
Work of art m- C.J. Langenhoven - Documents	Date : 1960
Chair - draughtman	Date: 2008

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

2. Heritage assets

Age and/or condition of heritage assets

[To the extent that it provides useful and relevant information, entities are encouraged to provide information that will enable users to appreciate the age and/or condition of heritage assets]

The following information relating to age and/or condition of heritage assets is provided for better appreciation:

3. Investments

Name of company	Held by	2014	2013	Carrying amount 2014	Carrying amount 2013
Momentum Rand Merchant Bank	DBSA	- %	- %	4 586 207	4 043 791

Fixed Deposits are investments with a maturity period of more than 12 months and earn interest of 13.46 % per annum"

Investments to the value of R4 586 207 are pledged as security for long term liability.

Fixed deposits consists out of the following accounts

	2014	2013
RMB FIXED DEPOSITS	4 586 207	4 043 791

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Figures in Rand	2014	2013
-----------------	------	------

4. Operating lease asset (accrual)

5. Employee benefit obligations

Defined benefit plan

Pension benefits

Retirement funds

The Municipality makes provision for post-retirement benefits to eligible councillors and employees, who belong to different pension schemes. These funds are governed by the Pension Funds Act, and include both defined benefit and defined contribution schemes.

Both the Cape Joint Pension Fund and Cape Retirement Fund are multi-employer plans. This means that there are multiple local authorities that participate in these funds. GRAP 25.31 states that when sufficient information is not available to use defined benefit accounting for multi-employer plan, an entity will account for the plan as if it were a defined contribution plan.

The Municipality was not supplied with information on the Municipality's share of the Pension and Retirement Fund's assets by the administrator.

Combined plans (including both defined benefit and defined contribution members)

CAPE JOINT PENSION FUND

The contribution rate payable is 9% by members and 18% by Council. The last actuarial valuation performed for the year ended 30 June 2013 revealed that the fund is in a sound financial position with a funding level of 99.7% (June 2012 - 99.4%).

CAPE JOINT RETIREMENT FUND

The contribution rate payable is 9% by members and 18% by Council. The last actuarial valuation performed for the year ended 30 June 2013 revealed that the fund is in a sound financial position with a funding level of 105.1% (30 June 2012 108.00%).

Defined contribution plans

Council contributes to the Government Employees Pension Fund, Municipal Council Pension Fund, IMATU Retirement Fund and SAMWU National Provident Fund which are defined contribution funds. The retirement benefit fund is subject to the Pension Fund Act, 1956, with pension being calculated on the pensionable remuneration paid. Current contributions by Council are charged against expenditure on the basis of current service costs.

	2014	2013
	R	R
Contributions paid recognised in the Statement of Financial Performance	3,137,301	2,540,862
	=====	=====

Other defined benefit pension funds

Long Service Awards	2014	2013
---------------------	------	------

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Figures in Rand

2014

2013

5. Employee benefit obligations (continued)

Reconciliation of present value of fund obligation:

Present value of fund at the beginning of the year	1,197,256	1,075,657
Total Expenses	<u>135,509</u>	<u>169,065</u>
Current-Service Cost	125,302	1,244,722
Interest Cost	86,601	65,742
Expected Benefit Vestings	<u>(76,394)</u>	<u>(31,616)</u>
Actuarial Loss/(Gain)	<u>11,131</u>	<u>(81,592)</u>
Closing Accrued Liability	<u>1,343,896</u>	<u>1,197,256</u>
	=====	=====

Sensitivity Analysis on the Accrued Liability

Key actuarial assumptions used:	2014 %	2013 %
Rate of Interest		
Discount Rate	8.09	7.47
General Salary Inflation (long-term)	7.20	6.85
Net effective discount rate	.83	.58

	Change	Current Service Cost	Interest Cost	Total	% Change
Central Assumptions		139,200	104,100	243,300	
General salary inflation	+1%	152,900	112,200	265,100	+9%
	-1%	127,000	96,800	223,800	-8%
Discount Rate	+1%	126,600	108,400	235,000	-3%
	-1%	153,700	98,800	252,500	+4%
Average retirement age	-2 yrs	129,400	94,800	224,200	-8%
	+2 yrs	154,200	115,500	269,700	11%
Withdrawal rates	-50%	187,000	125,300	312,300	28%

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Figures in Rand	2014	2013
-----------------	------	------

5. Employee benefit obligations (continued)

PROVISIONS

NON-CURRENT PROVISION

Provision for Rehabilitation of Landfill-sites	4,877,182	2,152,412
	<u>4,877,182</u>	<u>2,152,412</u>
	=====	=====

Provision is made for the estimated cost of rehabilitating waste sites. The provision has been determined on the basis of a recent independent study. The cost factors derived from the study by a firm of consulting engineers have been applied and projected at an annual civil contract price adjustment (CPA) indices (2012 based: June 2012) (4.1380%). The payment dates of total closure and rehabilitation are uncertain, but are currently expected between 2012/2018. Currently the Calitzdorp waste disposal site is illegal and needs to be decommissioned. Van Wyksdorp waste disposal site has been decommissioned and rehabilitated.

Landfill Sites

Balance 1 July	5,041,802	4,823,490
Contribution for the year	<u>2,724,769</u>	<u>218,312</u>
Total Provision 30 June	7,766,572	5,041,802
Current portion	<u>2,889,390-</u>	<u>2,889,390-</u>
Balance 30 June	<u>4,877,182</u>	<u>2,152,412</u>
	=====	=====

Location	Estimated decommission Site Dimensions	Cost of Rehabilitation date	Cost of Rehabilitation	2014	2013
Ladismith	9 000M2	2016	2,826,566	1,093,682	
Calitzdorp	20 000M2	2014	3,671,897	1,487,144	
Zoar	20 000M2	2016	1,268,118	927,956	
Van Wyksdorp	10 000m2			<u>1,533,021</u>	
				<u>7,766,572</u>	<u>5,041,802</u>
				=====	=====

The amounts recognised in the statement of financial position are as follows:

Carrying value

Post Retirement Health Care Benefits	(9 235 020)	(5 980 024)
Long Service Awards	(1 309 664)	(1 120 862)
	<u>(10 544 684)</u>	<u>(7 100 886)</u>

The fair value of plan assets includes:

Calculation of actuarial gains and losses

6. Inventories

Water	283 350	62 914
Stores, materials and fuels	866 019	816 782
	<u>1 149 369</u>	<u>879 696</u>

7. Loans to Golf Club

Loans to Golf Club

At beginning of the year	4 123	4 124
Repayments	(1 937)	(1)
	<u>2 186</u>	<u>4 123</u>

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Figures in Rand	2014	2013
8. Receivables from non-exchange transactions		
Fines	24 494	-
Other receivables from non-exchange revenue:Deposits	17 481	17 481
Other receivables from non-exchange revenue:Suspense Accounts	991 289	1 054 098
	1 033 264	1 071 579
Receivables from non-exchange transactions impaired		
As of 30 June 2014, other receivables from non-exchange transactions of - (2013: -) were impaired and provided for.		
The amount of the provision was - as of 30 June 2014 (2013: -).		
The ageing of these loans is as follows:		
9. VAT receivable		
VAT - Debtors control account	4 210 977	2 890 421
10. Trade Receivables		
Gross balances		
Rates	16 238 090	14 659 311
Electricity	7 351 158	5 429 897
Water	13 093 089	7 150 401
Sewerage	10 125 509	7 804 400
Refuse	10 329 870	7 314 001
Housing rental	141 799	133 147
Other (specify)	2 056 640	4 041 795
	59 336 155	46 532 952
Less: Allowance for impairment		
Rates	(10 749 042)	(10 749 042)
Electricity	5 728 297	(21 202 968)
Water	(9 473 072)	-
Sewerage	(8 324 856)	-
Refuse	(8 311 151)	-
Housing rental	(106 789)	-
Other (specify)	(1 744 005)	-
	(32 980 618)	(31 952 010)
Net balance		
Rates	5 489 048	3 910 269
Electricity	13 079 455	(15 773 071)
Water	3 620 017	7 150 401
Sewerage	1 800 653	7 804 400
Refuse	2 018 719	7 314 001
Housing rental	35 010	133 147
Other (specify)	312 635	4 041 795
	26 355 537	14 580 942

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Figures in Rand	2014	2013
10. Trade Receivables (continued)		
Included in above is receivables from exchange transactions		
Electricity	7 651 991	5 339 550
Water	13 260 923	7 145 019
Sewerage	10 156 907	7 804 400
Refuse	10 348 268	7 314 001
Other	7 280 600	7 027 945
Housing rental	141 799	133 147
	48 840 488	34 764 062
Included in above is receivables from non-exchange transactions (taxes and transfers)		
Rates	16 249 067	14 659 311
Other (specify)	1 122 578	1 071 579
	17 371 645	15 730 890
Net balance	66 212 133	50 494 952
Rates		
Current (0 -30 days)	671 918	937 607
31 - 60 days	349 507	294 173
61 - 90 days	300 475	274 561
91 - 120 days	275 020	2 403 928
> 121 days	3 892 128	-
	5 489 048	3 910 269
Electricity		
Current (0 -30 days)	2 800 973	2 075 992
31 - 60 days	1 018 868	130 571
61 - 90 days	619 287	307 517
91 - 120 days	67 692	2 825 471
121 - 365 days	8 572 635	(21 112 622)
	13 079 455	(15 773 071)
Water		
Current (0 -30 days)	2 084 228	912 554
31 - 60 days	402 135	623 561
61 - 90 days	506 881	1 304 697
91 - 120 days	626 773	4 304 207
121 - 365 days	-	5 382
	3 620 017	7 150 401
Sewerage		
Current (0 -30 days)	349 350	597 764
31 - 60 days	229 565	218 319
61 - 90 days	215 698	204 720
91 - 120 days	212 629	6 783 597
121 - 365 days	793 411	-
	1 800 653	7 804 400

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Figures in Rand	2014	2013
10. Trade Receivables (continued)		
Refuse		
Current (0-30 days)	417 984	538 610
31 - 60 days	295 887	195 818
61 - 90 days	279 389	191 232
91 - 120 days	274 863	6 388 341
> 121 days	750 596	-
	2 018 719	7 314 001
Housing rental		
Current (0 -30 days)	2 361	4 507
31 - 60 days	2 112	1 742
61 - 90 days	2 040	2 142
91 - 120 days	1 877	124 756
121 - 365 days	26 620	-
	35 010	133 147
Other (specify)		
Current (0 -30 days)	152 662	(444 229)
31 - 60 days	11 835	26 964
61 - 90 days	11 269	62 164
91 - 120 days	17 011	4 396 896
121 - 365 days	119 858	-
	312 635	4 041 795
Reconciliation of allowance for impairment		
Balance at beginning of the year	(31 952 010)	(35 591 107)
Contributions to allowance	-	4 351 458
Debt impairment written off against allowance	(1 028 608)	-
Reversal of allowance	-	(712 361)
	(32 980 618)	(31 952 010)

Consumer debtors past due but not impaired

The provision for doubtful debts on debtors (loans and receivables) exists due to the possibility that not all debts will be recovered. Loans and receivables were assessed individually and grouped together at the Statement of Financial Position date as financial assets with similar credit risk characteristics and collectively assessed for impairment.

Concentrations of credit risk with respect to trade receivables are limited due to the municipality's large number of customers. The municipality's historical experience in collection of trade receivables falls within recorded allowances. Due to these factors, management believes that no additional risk beyond amounts provided for collection losses is inherent in the municipality's trade receivables.

The carrying amount of consumer debtors are denominated in the following currencies:

Reconciliation of allowance for impairment of consumer debtors

11. Cash and cash equivalents

Cash and cash equivalents consist of:

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Figures in Rand	2014	2013
-----------------	------	------

11. Cash and cash equivalents (continued)

Bank balances	1 322 679	3 305 926
Short-term deposits	103 945	6 100 827
Other cash and cash equivalents	3 300	3 300
	1 429 924	9 410 053

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2014	30 June 2013	30 June 2012	30 June 2014	30 June 2013	30 June 2012
Standard Bank - Call Account - 288798546003	73 500	-	-	-	-	-
Standard Bank - Primary Bank Account - 420543546000	1 745 958	404 754	752 244	1 322 679	3 305 926	(856 424)
Standard Bank-Traffic Account - 420543554000	114 428	-	-	-	-	-
Standard Bank - Debtors Deposit Account - 420543562000	60 482	-	-	-	-	-
FNB Cheque Account - 52782730231	11 890	450 562	236 518	-	-	-
FNB Money Market Account - 62132042988	10 445	-	-	-	-	-
FNB Traffic Account - 62163554580	28 023	4 217	474 333	-	-	-
ABSA Bank - Call Account - 9117177062	3 779 649	-	-	-	-	-
Total	5 824 375	859 533	1 463 095	1 322 679	3 305 926	(856 424)

12. Accumulated surplus

Ring-fenced internal funds and reserves within accumulated surplus - 2014

	Other	Total
Opening balance	188 584 989	188 584 989
Surplus Appropriation	(188 584 989)	(188 584 989)
	-	-

Ring-fenced internal funds and reserves within accumulated surplus - 2013

	Other	Total
Opening balance	181 900 263	181 900 263
Other 1	(181 900 263)	(181 900 263)
	-	-

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)
Trading as Kannaland Municipality
Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Figures in Rand	2014	2013
-----------------	------	------

13. Finance lease obligation-LT Ptn

Minimum lease payments due

- within one year	186 048	717 905
- in second to fifth year inclusive	186 048	186 048
- later than five years	1 354 581	702 746

Present value of minimum lease payments

1 726 677	1 606 699
------------------	------------------

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note .

14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Unspent grants - National Government Grants	(833 402)	2 420 231
Unspent grants - Provincial Government Grants	5 454 530	8 902 129
Unspent grants District Municipality Grants	654 838	128 118
Unspent grants - Other Grant Providers	273 891	273 891
	5 549 857	11 724 369

Movement during the year

Balance at the beginning of the year	11 724 369	4 418 216
Additions during the year	69 066 829	65 752 745
Income recognition during the year	(75 241 341)	(58 446 592)
	5 549 857	11 724 369

See appendix "B" for reconciliation of grants from other spheres of government. The municipality complied with the conditions attached to all grants received to the extent of revenue recognised. Grants were withheld

15. Other financial liabilities

At amortised cost

Bank loan - DBSA Consolidated : Long Term ptn Terms and conditions	8 534 157	9 139 087
---	-----------	-----------

EXTERNAL LOANS

	<u>Long-term</u>	<u>Short-term</u>	<u>Total</u>
Brought forward	-9,139,087	-534,435	-9,673,522
Repaid	533,519		533,519
Short-term ptn transfer	71,411	-71,411	
Balance 30 June	-8,534,157	-605,846	-9,140,003
	=====	=====	=====

Non-current liabilities

At amortised cost	8 534 157	9 139 087
-------------------	-----------	-----------

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Figures in Rand	2014	2013
-----------------	------	------

16. Non-Current Current Provisions

Reconciliation of non-current current provisions - 2014

	Opening Balance	Additions	Utilised during the year	Total
Non-Current Provision	6 830 330	2 900 405	(1 099 668)	8 631 067
Current Provision	2 889 390	-	-	2 889 390
	9 719 720	2 900 405	(1 099 668)	11 520 457

Reconciliation of non-current current provisions - 2013

	Opening Balance	Additions	Utilised during the year	Total
Non-Current Provision	8 265 347	1 236 061	(2 671 078)	6 830 330
Current Provision	-	2 889 390	-	2 889 390
	8 265 347	4 125 451	(2 671 078)	9 719 720

Non-current liabilities	2 152 412	2 152 412
Current liabilities	9 368 045	7 567 308
	11 520 457	9 719 720

The warranty provision represents management's best estimate of the municipality's liability under one period warranties granted on (electrical) (products), based on (prior experience) (and) (industry averages for defective products).

Legal proceedings provisions

A brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits or service potential.

An indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events, as addressed in paragraph .61.

The amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

Transitional provisions

17. Payables from exchange transactions

Trade payables	31 972 050	31 262 647
Deposits received	203 640	168 291
Other payables	1 937	-
Other creditors-Salaries	3 268 719	7 911 284
Other Creditors-Salaries	(18 695)	-
Retention - Contracts	864 964	442 362
	36 292 615	39 784 584

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Figures in Rand	2014	2013
-----------------	------	------

17. Payables from exchange transactions (continued)

Payables are being recognised net of any discounts.

Payables should be paid within 30 days as prescribed by the MFMA. This credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation. Discounting of trade and other payables in initial recognition is not deemed necessary.

Due to limited cash resources, the municipality failed to comply with the 30 day payment period of creditors

The carrying value of trade and other payables approximates its fair value.

Sundry deposits include library deposits.

The carrying amount of loans to and from shareholders are denominated in the following currencies:

18. VAT payable

19. Consumer deposits

Electricity	629 027	559 513
-------------	---------	---------

The fair value of consumer deposits approximates their carrying value. Interest is not paid on these amounts.

20. Revenue

Service charges	56 546 391	45 740 571
Interest received (trading)	3 679 772	1 621 573
Income from agency services	681 975	585 054
Licences and permits	411 179	109 513
Miscellaneous other revenue	76 394	531 859
Rental income	243 339	245 185
Other income 1	1 811 066	1 419 031
Interest received - investment	1 636 606	997 115
Property rates	11 604 147	8 801 692
Other taxation revenue-VAT received on Grants	4 166 706	-
Government grants & subsidies	66 633 019	56 192 592
Public contributions and donations	87 510	45 000
Fines	3 360 266	604 509
	150 938 370	116 893 694

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	56 546 391	45 740 571
Interest received (trading)	3 679 772	1 621 573
Income from agency services	681 975	585 054
Licences and permits	411 179	109 513
Actuarial Gain	76 394	531 859
Rental income	243 339	245 185
Other income 1	1 811 066	1 419 031
Interest received - investment	1 636 606	997 115
	65 086 722	51 249 901

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Figures in Rand	2014	2013
20. Revenue (continued)		
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	11 604 147	8 801 692
Other taxation revenue 1	4 166 706	-
Transfer revenue		
Government grants & subsidies	66 633 019	56 192 592
Public contributions and donations	87 510	45 000
Fines	3 360 266	604 509
	85 851 648	65 643 793
21. Cost of sales		
Sale of goods		
Cost of goods sold	151 203	-
22. Property rates		
Rates received		
Residential	20 894 298	17 391 797
Less: Income forgone	(9 290 151)	(8 590 105)
	11 604 147	8 801 692
Valuations		
Residential	600 584 350	-
Commercial	55 625 000	-
State	85 403 000	-
Municipal	34 010 700	-
Small holdings and farms	342 448 230	-
Industrial	24 548 000	-
General	351 102 160	-
Church	40 395 000	-
Nature Reserve	21 726 000	-
	1 555 842 440	-

Valuations on land and buildings are performed every four years. The last general valuation came into effect on 1 July 2009. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A general rate of 0.010963 is applied to property valuations to determine assessment rates. The following rebates were applied: 30% for pensioners, 75% for agricultural and residential properties with R40 000 value or less are exempt.

Rates are levied on an annual basis with the final date for payment being 30 September 2013o (). Interest at prime plus 1% per annum is levied on rates outstanding on monthly rastes.

The new general valuation will be implemented on 01 July 2014.

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Figures in Rand	2014	2013
23. Service charges		
Sale of electricity	35 308 093	30 706 930
Sale of water	12 549 890	7 772 495
Sewerage and sanitation charges	4 145 831	3 982 634
Refuse removal	4 542 577	3 278 512
	56 546 391	45 740 571

Electricity losses equates to 5717544 units for the 2013/14 financial year. These losses are made up as follows:

Ladismith – 3829351 = 14.02%

Calitzdorp – 1888193 = 27.32%

Zoar – Eskom sells directly to these households

Van Wyksdorp – Eskom sells directly to these households

The overall electricity loss percentage is 16.7% of the total electricity sells for the 2013/14 financial year under review.

The main contributing factors for the high volumes of water losses are the following:

Incorrect monthly electricity readings

Old electricity networks

Bulk – and medium business meter defaults

HEFCOM metering system replacement during the last 6 months of the financial year under review.

Management is currently addressing these contributing factors, given the limited financial resources. Some of these factors have already been corrected in the year under review. The following electricity losses occurred during the 2013/2014 financial year:

Ladismith 14.02%

Calitzdorp 27.32%

Average 16.7%

This loss is at an unacceptably high level and should be investigated. A large percentage of the loss is due to aparent bridging of meters. This has to a large extent been resolved due to Hefcom meters being replaced. The less should be monitored on a monthly basis to ensure that the level of loss is limited to an acceptable level.

Ladismith – 481312 kl

Calitzdorp – 252584 kl

Zoar – could not be determined due to the implementation of bulk water meters only at the end of the financial year

Van Wyksdorp – Bulk meter was not functional during the year under review

The main contributing factors for the high volumes of water losses are the following:

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Figures in Rand

2014

2013

23. Service charges (continued)

Incorrect monthly water readings

Old water networks

Regular water pipe repairs

No water meters that have been implemented in certain parts of the towns

Management is currently addressing these contributing factors, given the limited financial resources.

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Figures in Rand	2014	2013
-----------------	------	------

24. Government grants and subsidies

Operating grants

Equitable share	20 051 040	18 989 000
Government grant (operating)NIE	15 488 715	4 627 052
Government grant CDW Grant	81 344	-
District Municipality Grants	-	24 153
Government grant (operating) Financial Management Grant	1 389 299	-
Government grant (operating) Municipal Systems Improvement Grant	826 884	-
Government grant (operating)Financial Management Support Grant	77 518	-
Government grant (operating) MIG	830 996	-
Government grant (operating) Streets Nissanville	42 600	-
Government grant (operating) - Calitzdorp Housing	-	13 964 000
	38 788 396	37 604 205

Capital grants

Government grant (capital) Community Development	-	124 519
Government grant (capital) EPWP	1 490 407	-
Provincial Government grant - Project Library	-	72 347
Government grant (capital) MIG	9 235 875	14 132 370
Government grant (capital) 6	1 287 879	1 882 468
Government grant - Calitzdorp Housing - Revenue	11 065 000	-
Government Grant - RBIG	2 293 003	2 376 683
Government grant (capital) Water - DWA	2 472 459	-
	27 844 623	18 588 387
	66 633 019	56 192 592

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	20 051 040	18 989 000
Unconditional grants received	48 946 010	37 203 592
	68 997 050	56 192 592

Equitable Share

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)
Trading as Kannaland Municipality
Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Figures in Rand	2014	2013
-----------------	------	------

24. Government grants and subsidies (continued)

In terms of Section 214 of the Constitution (Act 108 of 1996), this grant is allocated as an unconditional grant by National Treasury and used by the municipality to subsidise the provision of basic services to indigent community members.

Balance unspent at beginning of year		
Current-year receipts	19 511 000	18 989 000
Conditions met - transferred to revenue	<u>19 511 000</u>	<u>18 989 000</u>
Other	=====	=====

Local Government Financial Management Grant

Balance unspent at beginning of year	1	(14 464)
Current-year receipts	1 400 000	1 264 465
Conditions met - transferred to revenue	<u>(1 400 000)</u>	<u>(1 250 000)</u>
Conditions still to be met	1	1
	=====	=====

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial reforms required by the Municipal Finance Management Act (MFMA), 2003. The FMF grant also pays for the cost of the Financial Management Internship Programme (e.g. salary costs of the Financial Management Interns)

Municipal Systems Improvement Grant

Balance unspent at beginning of year	(282 842)	(2 802)
Current-year receipts	890 000	1 500 000
Conditions met - transferred to revenue	<u>(881 270)</u>	<u>(1 500 000)</u>
Conditions still to be met	<u>(274 112)</u>	<u>(282 842)</u>
	=====	=====

The MSIG was used for building in-house capacity to perform municipal functions and stabilise institutional and governance systems.

Municipal Infrastructure Grant

Balance unspent at beginning of year	2 564 629	(278,556)
Current-year receipts	10 934 000	11 517 000
Conditions met - transferred to revenue: Operating	(3 215 713)	(554 979)
Conditions met - transferred to revenue: Capital	<u>(9 818 243)</u>	<u>(8 118 836)</u>
Conditions to be met	464 673	2 564 629
	=====	=====

The grant was used to upgrade infrastructure in previously disadvantaged areas.

Housing

Balance unspent/overspent at beginning of year	2 087	2 087
Current-year receipts		13 964 000
Conditions met - Operating		(13 964 000)
Conditions met - Capital		
Grant expenditure to be recovered	<u>2 087</u>	<u>2 087</u>
	=====	=====

DME Side Demand Management Meters

Balance unspent/overspent at beginning of year	2 577 449	2 842 837
Current-year receipts		

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Figures in Rand	2014	2013
-----------------	------	------

24. Government grants and subsidies (continued)

Conditions met - Operating		(265 388)
Conditions met - Capital		
Correction/Transfers	(2 254 000)	
Grant expenditure to be recovered	323 449	2 577 449
	=====	=====

The National Electrification Grant was used for energy efficiency to reduce electricity demand.

Other Grants

Balance unspent/overspent at beginning of year	9 587 790	1 769 395
Current -year receipts	36 331 821	19 634 172
Conditions met - Operating	(15 005 542)	(1 449 631)
Conditions met - Capital	(21 662 174)	(10 366 146)
Written-off/Transfers		
VAT on Grants Recognised	(578 214)	
Conditions still to be met/Expenditure to be recovered	80673 681	9 587 790

National Government Grants

Balance unspent at beginning of year	2 420 231	3 480 009
Current-year receipts	50 443 730	42 887 623
Conditions met - transferred to revenue	(24 255 355)	(21 392 525)
Other	(29 442 008)	(22 554 876)
	(833 402)	2 420 231

Provincial Government Grants

Balance unspent at beginning of year	8 902 129	1 461 856
Current-year receipts	18 105 101	14 334 000
Conditions met - transferred to revenue	(11 941 338)	(14 436 741)
Conditions met-transferred to capital	(9 611 362)	7 543 014
	5 454 530	8 902 129

District Municipality Grants

Balance unspent at beginning of year	128 118	128 118
Current-year receipts	526 720	-
	654 838	128 118

Other Grant Providers

Balance unspent at beginning of year	273 891	6 199 022
Current-year receipts	-	9 364 172
Conditions met - transferred to revenue	-	(15 289 303)
	273 891	273 891

25. Public contributions and donations

Public contributions and donations 1	87 510	45 000
--------------------------------------	--------	--------

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Figures in Rand	2014	2013
26. Other revenue		
Rental income - third party	243 339	245 185
Other income 1	1 811 066	1 419 031
	2 054 405	1 664 216

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Figures in Rand	2014	2013
27. Other income		
28. General expenses		
Advertising	148 867	35 352
Auditors remuneration	3 620 654	1 887 943
Bank charges	147 395	160 818
Cleaning	93 977	73 626
Commission paid	179 528	162 628
Computer expenses	-	8 751
Consulting and professional fees	2 669 804	1 617 135
Consumables	38 086	50 742
Donations	264 667	61 378
Entertainment	53 590	47 590
Hire	315 427	179 586
Insurance	382 963	312 873
Community development and training	41 945	18 184
Lease rentals on operating lease	364 256	256 319
Promotions and sponsorships	135 766	95 547
Magazines, books and periodicals	9 155	4 929
Medical expenses	-	801
Fuel and oil	994 030	894 419
Postage and courier	412 907	343 706
Printing and stationery	478 116	369 801
Promotions	310 186	52 125
Research and development costs	10	-
Royalties and license fees	96 792	126 801
Security (Guarding of municipal property)	1 267 120	-
Software expenses	364 845	818 863
Staff welfare	51 310	10 700
Subscriptions and membership fees	1 554 850	689 076
Telephone and fax	1 114 492	727 457
Transport and freight	7 918	(1 838)
Training	199 575	493 038
Travel - local	1 484 636	931 372
Refuse	259 563	112 862
Title deed search fees	128 085	33 687
Assets expensed	-	64 009
Electricity	2 510 337	167 802
Sewerage and waste disposal	11 000	39 700
Water	-	23 425
Uniforms	22 406	68 652
Tourism development	627 764	396 963
Expense 1	99 036	-
Expense 2	11 843	-
Move of Employees	-	5 000
Landfill Sites	2 724 769	218 312
Fruitless & Wasteful expenditure	808	12 261
Chemicals	248 943	230 840
Other expenses	750 682	809 790
Property only	38 653	-
Sale of goods	151 203	-
	24 387 959	12 613 025

29. Operating surplus

Operating surplus for the year is stated after accounting for the following:

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Figures in Rand	2014	2013
29. Operating surplus (continued)		
Income		
Interest on Investments	1 636 606	997 115
Operating lease charges		
Equipment		
• Contractual amounts	364 256	256 319
Gain (loss) on sale of property, plant and equipment	129 861	(46 294)
Impairment on property, plant and equipment	3 218 085	-
Impairment on trade and other receivables	-	2 707
Depreciation on property, plant and equipment	9 793 469	8 256 422
Employee costs	44 079 806	34 362 672
Research and development	10	-
Minimum lease payments		
The disclosed payments also include payments for non-lease elements in the arrangement.		
30. Employee related costs		
Basic	22 127 396	18 380 582
Bonus	1 522 574	1 360 176
Medical aid - company contributions	1 557 999	1 520 115
UIF	215 707	188 942
WCA	-	281
SDL	325 417	265 970
Other payroll levies	11 848	10 925
Leave pay provision charge	1 126 188	1 135 962
Defined contribution plans	3 057 890	2 539 584
Overtime payments	1 117 339	754 540
Acting allowances	531 919	410 522
Car allowance	2 183 340	1 436 969
Housing benefits and allowances	72 976	82 564
Allowances	56 285	36 285
Cellphone Allowances	3 500	-
Standby Allowances	927 582	799 820
Termination benefits	2 775 625	-
	37 613 585	28 923 237
31. Remuneration of councillors		
Councillors	3 333 806	2 801 007
In-kind benefits		
The Executive Mayor, Deputy Executive Mayor, Speaker and Mayoral Committee Members are full-time. The Executive Mayor is provided with an office at the cost of the Council.		
32. Debt impairment		
Contributions to debt impairment provision	5 232 466	4 627 433

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Figures in Rand	2014	2013
33. Depreciation and amortisation		
Property, plant and equipment	9 793 469	8 256 422
34. Impairment of assets		
Impairments		
Property, plant and equipment	3 218 085	-
Electricity Impairment R1 949 548		
Water Impairment R1 055 713		
Electricity Impairment R 212 824.		
Trade and other receivables	-	2 707
Capitalised restoration cost.		
	3 218 085	2 707
The main classes of assets affected by impairment losses are: Sanitation/Refuse (R1 949 548), Water (R1 055 713), Electricity (R212 824)		
35. Finance costs		
Other interest paid-External Fines and penalties	1 813 955	3 041 994
36. Auditors' remuneration		
Fees	3 620 654	1 887 943
The amount owing to the Auditor-general as at 30 June amounts to R2,265,082.38. This amount is included as a provision in the abovementioned amount.		
37. Operating lease		
Refer to note 4		
38. Rental of facilities and equipment		
39. Contracted services		
Specialist Services	4 533 697	4 217 466
40. Bulk purchases		
Electricity	33 722 325	22 171 963
Water	449 958	470 497
	34 172 283	22 642 460
41. Tax refunded (paid)		
Balance at beginning of the year	5 240 906	2 459 360
Balance at end of the year	(4 894 022)	(5 240 906)
	346 884	(2 781 546)

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Figures in Rand

2014

2013

42. Contingencies

Merchant West (PTY) Limited (MW) issued a summons on 20 May 2014 against the Municipality and HEFCOM. This relates to SMART electricity meters that HEFCOM funded through MW. According to management, several of contract breaches came to effect on the part of HEFCOM. The municipality is in a process to cancel the said contract for breach on the part of HEFCOM, also claiming back losses in terms of electricity usage and the sale of electricity. These losses still need to be quantified. MW claims an amount of R 1,896,198.06. No provision for this amount has been raised on year end due to the fact that the municipality is disputing is matter regarding the summons issued.

Parmalat SA (PTY) LTD claimed an amount of R 141,500.72 from the municipality on 17 June 2014. The reason for this claim; they argue; is the fact that the municipality coursed damage to their air compressor by not informing them regarding routine electricity maintenance work that the municipality had done. No provision for this amount has been raised on year end due to the fact that the municipality is still investigation the matter at hand.

The municipality is defending the claim against the MEC Local Government. The cost up to now amounts to R48903.66. Further legal cost is unknown. The municipality's lawyers and management consider the likelihood of the action against the municipality being in favour of the municipality.

The municipality is defending the claim against Molly Anne Smith for damages caused by falling in an irregation furrow. The amount of the claim is R300000. Should the action be successful the municipality does have insurance cover to cover litigation costs and claims.

The municipality is defending the claim against Kaybeez Development Ptojects for damage caused by cancellation of contract. The claim is for R97750.00. Should the action be successful the municipality does have insurance cover to cover litigation costs and claims.

The municipality is defending the claim against Booysen and Skippers for reveiwing arbitration awards The claim amounts to R1,000,000 and the municipality's Lawers and management consider the likelihood of the action against the municipality being in fafour of the municipality.

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Figures in Rand

2014

2013

43. Related parties

Relationships

Accounting Officer

Close family member of key management

Joint venture of key management

Members of key management

Refer to accounting officer's report note

Name

RSK & Associates - Husband working at George Municipality. Value of payments R2 874 961,74

Charles Orton - Wife working at Department of Health. Value of payments R178 680,51

Related Party Disclosure

2013/2014

Relationships

Councillor

- Ward 1

- Ward 2

- Ward 3

- Ward 4

J Donson

W Meshoa/ML Claasen/A Ewerts

HD Ruiters/PJ Antonie

A J Rossouw/L Willemse

Directors

Executive Manager: Financial Services

Executive Manager: Corporate Services

NB Delo

H Barnard

Municipal Manager

MM Hoogbaard

Related party transactions

Related party transactions for the year ended 30 June 2014

	Rates	Services	Total	Outstanding balance
Municipal Manager & Councillors				

Only one of the above mentioned accounts were outstanding for more than 90 days. It is Councillor A Ewerts.

The services rendered to related parties are charged at approved tariffs that were advertised to the public. No bad debts were written off or recognised in respect of amounts owed by related parties.

The amounts outstanding are unsecured and are settled in the following month except the account of Councillor A Ewerts. Consumer deposits were received from councillors, the municipal manager and Section 57 personnel. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

2012/13

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Figures in Rand

2014

2013

43. Related parties (continued)

Councillor

- Ward 1	J Donson
- Ward 2	W Meshoa/M Claasen
- Ward 3	HD Ruiters/PJ Antonie
- Ward 4	A J Rossouw/L Willemse

Directors

Executive Manager: Financial Services	NB Delo
Executive Manager: Corporate Services	H Barnard

Municipal Manager	MM Hoogbaard
-------------------	--------------

Related party transactions

Related party transactions for the year ended 30 June 2013

	Rates	Services	Total	Outstanding balance
Municipal Manager & Councillors				

No one of the above mentioned accounts were outstanding for more than 90 days.

The services rendered to related parties are charged at approved tariffs that were advertised to the public. No bad debts were written off or recognised in respect of amounts owed by related parties.

The amounts outstanding are unsecured and are settled in the following month. Consumer deposits were received from councillors, the municipal manager and Section 57 personnel. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties. [Disclose summary of broad terms and conditions of transactions with related parties, including how these terms and conditions differ from those normally associated with similar transactions with unrelated parties]

Key management information

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Figures in Rand

2014

2013

44. Accounting Officer's and prescribed officer's emoluments

Municipal Manager: MM Hoogbaard

2014

Emoluments	Other benefits*	Total
1 284 373	208 665	1 493 038

2013

Emoluments	Other benefits*	Total
913 996	223 962	1 137 958

Prescribed officers

2014

	Emoluments	Other benefits*	Total
Head Financial Services	1 227 787	139 919	1 367 706
Head Corporate Services	768 603	151 216	919 819
	1 996 390	291 135	2 287 525

2013

	Emoluments	Total
Head Financial Services	1 081 506	1 081 506
Head Corporate Services	868 313	868 313
	1 949 819	1 949 819

Service contracts

4 Employees are subject to written employment agreements. The employment agreements regulate duties, remuneration, allowances, restraints, leave and notice periods of these employees. None of these service contracts exceed 7 years.

45. Prior period errors

Prior year errors, restatements and correction of errors will be made available to the auditors

The correction of the error(s) results in adjustments as follows:

Cash flow statement

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Figures in Rand	2014	2013
-----------------	------	------

46. Risk management

Financial risk management

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. The municipality uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by a central treasury department (entity treasury) under policies approved by the accounting officer. Municipality treasury identifies, evaluates and hedges financial risks in close co-operation with the municipality's operating units. The accounting officer provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

[Discuss only changes from previous year in respect of exposures to risk]

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Figures in Rand	2014	2013
-----------------	------	------

46. Risk management (continued)

Credit risk

Credit Risk is the risk that the counter party to a financial or non-financial asset will fail to discharge an obligation and cause the municipality to incur financial loss.

Credit risk consists mainly of cash deposits, cash equivalents, trade and other receivables and unpaid conditional grants and subsidies.

Trade and other debtors are disclosed net after provisions are made for impairment and bad debt'. Trade debtors comprise of a large number of ratepayers, dispersed across different sectors and geographical areas. On-going credit evaluations are performed on the financial condition of these debtors. Credit risk pertaining to trade and other debtors is considered to be moderate due to the diversified nature and immaterial nature of individual balances. In the case of consumer debtors the municipality effectively has the right to terminate services to customers but in practice this is difficult to apply. In the case of debtors whose accounts become in arrears, Council endeavors to collect such accounts by "levy of penalty payment", restricting of "services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit control and Debt Collection Policy.

The municipality only deposits cash with major banks with high quality credit standing. No cash and cash equivalent were pledged as security for financial liabilities and no restrictions were placed on the use of any cash and cash equivalents for the period under review. Although the credit risk pertaining to cash and cash equivalents are considered to be low, the maximum exposure are disclosed below.

The risk pertaining to unpaid conditional grants and subsidies are considered to be very low. Amounts are receivable from National and Provincial government and there are no expectation of counter party default.

The municipality is exposed to a number of guarantees for the overdraft facilities of economic entities and for guarantees issued in favour of the creditors of A (Pty) Ltd. Refer to note for additional details.

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Figures in Rand

2014

2013

46. Risk management (continued)

In accordance with IAS 39.09 the financial instruments of the municipality are classified as follows:

<u>Financial Assets</u>	<u>Classification</u>	<u>2014</u>	<u>2013</u>
Investments			
Fixed Deposits	Financial Instruments at amortised cost		
Long-term Receivables			
Sport Club Loans	Financial Instruments at amortised cost		
Receivables			
Receivables from Exchange transactions	Financial instruments at amortised cost		
Receivables from non-exchange transactions	Financial instruments at amortised cost		
Current Portion of Long-term Receivables			
Sport Club Loans	Financial instruments at amortised cost		
Short-term portion Investments			
Call Deposits	Financial instruments at amortised cost		
Bank Balances and cash			
Bank Balances	Financial instruments at amortised cost		
Cash Floats and Advances	Financial instruments at amortised cost		

SUMMARY OF FINANCIAL ASSETS

Financial instruments at amortised cost

<u>Financial Liability</u>	<u>Classification</u>
Long-term Liabilities	
Annuity Loans	Financial instruments at amortised cost
Capitalised Lease liability	Financial instruments at amortised cost
Payables from exchange transactions	
Trade creditors	Financial instruments at amortised cost
Retentions	Financial instruments at amortised cost
Deposits	Financial instruments at amortised cost
Other	Financial instruments at amortised cost
Current Portion of Long-term liabilities	
Annuity loans	Financial instruments at amortised cost
Capitalised Lease Liability	Financial instruments at amortised cost

]

Market risk

Risk from biological assets

The municipality is exposed to financial risks arising from changes in milk prices. The municipality does not anticipate that milk prices will decline significantly in the foreseeable future. The municipality has not entered into derivative contracts to manage the risk of a decline in milk prices. The municipality reviews its outlook for milk prices regularly in considering the need for active financial risk management.

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Figures in Rand	2014	2013
-----------------	------	------

46. Risk management (continued)

Interest rate risk

As the municipality has significant interest-bearing liabilities, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

The municipality analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the municipality calculates the impact on surplus and deficit of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies.

The municipality did not hedge against any interest rate risk during the current year

0.5% (2011-0.5%) Increase in interest rates	(89,501)	(72,530)
0.5% (2011-0.5%) Decrease in interest rates	89,501	72,530

Cash flow interest rate risk

Fair value interest rate risk

Foreign exchange risk

The municipality does not engage in foreign currency transactions.

The municipality reviews its foreign currency exposure, including commitments on an ongoing basis. The municipality expects its foreign exchange contracts to hedge foreign exchange exposure.

47. Going concern

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

48. Events after the reporting date

The municipality has no events after reporting date during the financial year ended 30 June 2014.

49. Unauthorised expenditure

Unauthorised expenditure is in the process of being compiled and will be made available to council for consideration before the next council meeting and incorporated into the financial statements before the final audit of the financial statements.

50. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure	857 898	1 231 132
------------------------------------	---------	-----------

Fruitless and wasteful expenditure is in the process of being compiled and will be made available to council for consideration before the next council meeting and incorporated into the financial statements before the final audit of the financial statements.

51. Irregular expenditure

Opening balance	3 554 334	100 000
Add: Irregular Expenditure - current year	2 060 715	3 454 334
	5 615 049	3 554 334

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)
Trading as Kannaland Municipality
Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Figures in Rand	2014	2013
51. Irregular expenditure (continued)		
Details of irregular expenditure – current year		
Disciplinary steps taken/criminal proceedings		-
Details of Section 36 SCM Deviations		
Section 36 SCM deviations	R 2 918 612,67	4 785 467
Section 32 expenditure		
Section 32 expenditure	2 918 613	
52. Reconciliation between budget and cash flow statement		
Reconciliation of budget surplus/deficit with the net cash generated from operating, investing and financing activities:		
Operating activities		
Timing differences	(2 130 838)	-
Undefined Difference	-	(3 213 024)
Net cash flows from operating activities	(2 130 838)	(3 213 024)
Investing activities		
Timing differences	(33 047 842)	-
Undefined Difference	-	(16 359 652)
Net cash flows from investing activities	(33 047 842)	(16 359 652)
Financing activities		
Timing differences	(412 227)	-
Undefined Difference	-	(9 154 099)
Net cash flows from financing activities	(412 227)	(9 154 099)
Net cash generated from operating, investing and financing activities	(35 590 907)	(28 726 775)
53. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Material losses through criminal conduct		
Audit fees		
Opening balance	1 233 898	1 233 898
Current year subscription / fee	2 639 017	-
Amount paid - current year	(1 607 833)	-
	2 265 082	1 233 898

Audit fees are paid in accordance with MFMA 125 (1)(c). The amount budgeted for 2014/2015 amounts to R2 000 000. The CFO is going to try to have the audit fees reduced.

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)
Trading as Kannaland Municipality
Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Figures in Rand	2014	2013
-----------------	------	------

53. Additional disclosure in terms of Municipal Finance Management Act (continued)

PAYE and UIF

Opening balance	2 660 616	2 670 481
Current year contributions	4 827 341	4 104 199
Amount paid - current year	(7 471 165)	(4 114 064)
	16 792	2 660 616

Pension and Medical Aid Deductions

Opening balance	19 514	17 984
Current year subscription / fee	7 070 490	5 488 022
Amount paid - current year	(7 073 212)	(5 486 492)
	16 792	19 514

Amount not paid included in creditorst

VAT

VAT receivable	4 210 977	2 890 421
----------------	-----------	-----------

All VAT returns have been submitted throughout the year.

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2014:

30 June 2014	Outstanding less than 90 days	Outstanding more than 90 days	Total
Deputy Mayor A Everts	-	4 143	4 143

30 June 2013	Outstanding less than 90 days	Outstanding more than 90 days	Total
Councillor Ward 4 ML Claasen	-	5 564	5 564

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the City Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

The total amount condoned by council amounts to R2,060,714.78.

Incident

Other	2 060 715	-
-------	-----------	---

54. Utilisation of Long-term liabilities reconciliation

Long-term liabilities raised	8 534 157	9 139 087
------------------------------	-----------	-----------

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Figures in Rand	2014	2013
-----------------	------	------

54. Utilisation of Long-term liabilities reconciliation (continued)

Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date.

55. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the financial statements.

56. Decommissioning, restoration and environmental rehabilitation funds

KANNALAND MUNICIPALITY

(Registration number Western Cape WC041)

Trading as Kannaland Municipality

Financial Statements for the year ended 30 June 2014

Notes to the Financial Statements

Figures in Rand

2014

2013

57. Budget differences

